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SUBJECT: GOLDEN" MAHARASHTRA'S ECONOMY IS STILL INDIA'S BIGGEST, BUT
CHALLENGES AHEAD

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11. (U) Summary: The state of Maharashtra has historically been the seat of economic and financial power in India. State government officials, members of the business community, and investors told Congenoffs that Maharashtra's historical status as the top investment destination is also driven by business-friendly policies, and good investment facilitation agencies. However, due to the lack of infrastructure development and disinterested political leadership in Maharashtra, pro-active state leaders in Gujarat, Tamil Nadu and Andhra Pradesh have used good policies to attract increasing numbers of investors. Nevertheless, with foreign investment of USD 30 billion -- 40 percent of India's total foreign investment -- flowing into the Maharashtra during the past two and a half years, Maharashtra's reign as India's economic and commercial powerhouse remains undisputed. For these reasons, interlocutors noted that Maharashtra is simply too important to be ignored and engaging with the local government is the best way to address business obstacles and make the state -- and by extension most of Corporate India -- more investor-friendly. Moreover, in most cases, the state-level experience plays a much bigger role in the outcome of an investment, making engagement with state leaders an essential effort. End Summary.

Maharashtra: India's Epicenter of Commerce & Industry

12. (U) Maharashtra, the second most populous state in India and the nation's largest employment provider, accounts for 13 percent of national income, one-fifth of the total industrial output, and a quarter of the total exports of the country. Maharashtra averaged 9 percent growth rate from 2004 to 2008. (Growth declined to 6.7 percent in 2008-09 largely due to the economic slowdown and global financial crisis.) The average per capita income in the state is USD 1000, compared to the national average of USD 750 per year. Mumbai, in the center of coastal Maharashtra, is India's commercial and financial capital. It houses the country's leading business conglomerates and is the seat of economic and financial power in the country. The state leads in total project investment with USD 107 billion worth of projects planned or under execution according to Projects Today, a leading Indian research organization. The state is also the number one destination for foreign direct investment (FDI,) with inflows of USD 35 billion, or over one-third of total FDI since

2000, according to Reserve Bank of India (RBI) data.

¶3. (U) Relative to other Indian states, Maharashtra has historically had a reputation for having well-educated public servants, a high standard of policing, progressive business policies, a vibrant civil society, and an extremely dynamic -- and philanthropic -- business community. In post-independence India, Maharashtra led in implementing pro-development and pro-growth policies, developing irrigation and agriculture, promoting industrial parks, permitting private education, and building infrastructure. Mumbai itself claimed some of the most modern road and rail systems, the best urban public transport system, and some of India's finest universities and hospitals. For much of India's independent history, Maharashtra and Mumbai led India's growth, development, and modernization.

Historical Legacy, Pro-Business Policies and Good Investment Facilitating Agencies Seen as Investment Enablers

¶4. (SBU) A. M. Khan, the Principal Secretary for Industries for the Government of Maharashtra, noted that the state's geographical location, abundant manpower and natural resources, and the presence of Mumbai as India's commercial and financial hub has traditionally drawn investors to the state. According to RBI data, Maharashtra attracted USD 30 billion of FDI in the past two and a half years. In contrast, the other emerging

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pro-business and investor-friendly states of Gujarat, Karnataka, Andhra Pradesh, and Tamil Nadu collectively secured FDI of USD 17 billion during the same period. Moreover, Khan claimed that successive state governments, irrespective of their political affiliation, have been consistent and clear in adopting and implementing business-friendly policies to ensure that investors remained committed to the state. Khan noted that after an investment receives central government approval, if necessary, most of the key decisions about the investment, as well as its outcome and implementation, are made at the state level.

¶5. (U) Khan highlighted several favorable investment-enabling industrial policies passed by the Maharashtra government. Since the Biotechnology Policy of 2001, the state has garnered a 33 percent share of all investments in biotechnology. Similarly, the IT and ITES policy of 2003 has led to an eight-fold increase in IT exports and the wine policy of 2001 has resulted in the state garnering a 90 percent share in wine production in India. Business interlocutors pointed to the mega project policy of 2005 which they claimed made the state more investor friendly. This policy assured fast-track approvals, single window clearance, and infrastructural facilities for projects over USD 25 million, USD 65 million or USD 130 million or employing over 250, 500, or 1,000 persons depending on the location. Khan said that 159 mega projects with proposed investment of USD 291 million and an employment potential of 200,000 new jobs have been approved since the policy was announced. 41 of these projects have been implemented, with 19 located in underdeveloped areas of the state.

¶6. (U) In a series of discussions with the business and investment community in Maharashtra, interlocutors acknowledged the state's long-standing attractiveness to businesses and investors. Maharashtra's business community largely agreed that politically stable policies were crucial, and pointed to other

states where government-dictated business policies can change with every new government, and where business can depend on competing political patrons for success. Businesses also praised the role of state government agencies, especially the Maharashtra Investment Development Corporation's (MIDC), in creating a business-friendly investment environment. MIDC was formed to develop infrastructure and create investment opportunities in Maharashtra's less developed areas. In MIDC's 230 industrial parks, an investor is assured of sound infrastructure facilities, clear land ownership and established connectivity with other states and to the ports, they noted. MIDC's initiatives in creating industrial parks in Pune helped transform the region from Mumbai's poor neighbor to a business and investment competitor. The City Industrial Development Corporation (CIDCO) and the Maharashtra Airport Development Corporation (MADC) have played similar roles in transforming Navi Mumbai and Nagpur.

17. (U) Business interlocutors noted that Maharashtra has historically attracted investment dating back to the British rule. Longstanding investors are reluctant to shift from the state as inertia and comfort with the status quo sets in, said Pradeep Bhargava, the MD of Cummins Generator Technologies. As linkages with the customer and supplier base are especially important for the manufacturing industry, Maharashtra is the natural choice for many businesses whose customers or suppliers are already present in the state, he added. In contrast, process industries like chemicals and petroleum which do not require close proximity to customers or suppliers can flourish in states like Gujarat, which many claim is more business-friendly. There are exceptions to this argument; Hyundai and Ford chose to establish manufacturing facilities in Tamil Nadu away from Maharashtra's "auto alley" devoted to the production of automotive components, largely due to investment incentives.

The Decline of Mumbai

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18. (SBU) Maharashtra's flourishing business climate notwithstanding, almost all interlocutors agreed that its capital, Mumbai, is no longer the center of growth and innovation it once was. First, Mumbai's infrastructure has eroded, with too few projects in the pipeline, after long delays. Second, it has no discernable urban leadership, and state leaders, most of whom come from rural provinces, show little interest in Mumbai's future. Instead, the continued demand for land and urban development has spurred a boom in real estate and land speculation. The most dynamic businesses in the city are now property and land developers who, in league with local politicians, conspire to manipulate and control the allocation of land and construction permits, instead of focusing on innovation. According to one investor, "Mumbai has now become an extraction economy; there might as well be oil under the ground, given all the fights over land." Given this focus, most factories and industries have long ago relocated in industrial belts far from Mumbai.

19. (SBU) On the other hand, other cities, such as Hyderabad, Bangalore, and the New Delhi region, have become centers of excellence for IT, entrepreneurship, and innovation, and have greatly improved in livability and sophistication. With cheaper living and working conditions, more modern infrastructure, easier accessibility to high-quality schools, and space to expand, these cities offer more for the young entrepreneur and

the business. Representatives of several private equity firms told Congenoff that almost all their prospective investments now come from these cities; almost none come from Mumbai. In a business survey conducted five years ago, 80 percent of respondents interviewed said that they were downsizing their operations in the city.

Is Maharashtra Losing its Investment Allure?

¶10. (U) While Mumbai suffers from the typical urban challenges that affect large cities, weakening infrastructure is one of Maharashtra's greatest liabilities. The state faces a peak power demand deficit of 24 percent resulting in four to twelve hours of scheduled power outages in most parts of the state, excluding Mumbai. Physical infrastructure -- rail, roads, sewerage and water -- is deteriorating or non-existent. Project execution has been poor, and while a few new projects are moving forward, new infrastructure projects have suffered from delays, long even by Indian standards. As a result, many emerging states with increasingly better infrastructure and pro-business and pro-development programs are catching up. However, Ashutosh Parasanis, Managing Director of PTC Software, argued that the pressure on existing infrastructure is much higher in Maharashtra due to its high growth rate and increasing number of new businesses and migrant population.

¶11. (SBU) Moreover, contacts widely agreed that ten years of indifferent governance by the ruling Congress/Nationalist Congress Party coalition -- which was re-elected in October 2009 -- have further decreased investor confidence in the state. Businesses repeatedly claimed that political leaders devote most of their time to the politics of remaining in office instead of developing and implementing development and economic policies. Contacts acknowledge that corruption exists in almost every business transaction in the state, though no more or less than other states in India. Businesses must bribe government officials to secure permits and permissions, payouts are made to politicians and labor leaders to ensure peace in factories, and commissions are a mandatory component of any government contracts or tender. Maharashtra's inability to improve governance, implementation, and infrastructure development at the same rate as some other states has caused it to lose ground in relative comparisons. For example, an India Today study ranked Maharashtra at no. 8 among all Indian states in the overall quality of life performance indicators in 2009, down two places from the sixth position it held from 2004-2008.

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¶12. (SBU) Businessmen and officials commented that Maharashtra's leaders have traditionally had a governing style that puts them at a disadvantage. While Maharashtra government officials are reticent and modest by nature, and shy away from aggressive marketing and promotion efforts, other state leaders aggressively tout their strengths to attract investors. Business still applauds Gujarat Chief Minister Narendra Modi's personal and pro-active involvement in business, despite his role in the 2002 Gujarat carnage. Former Andhra Pradesh Chief Minister Chandrababu Naidu single-handedly transformed his state to a leading global IT hub. Dynamic leadership in other states coupled with tax incentives, concessions and a warm and welcoming environment could continue to lure business away from Maharashtra, businessmen noted.

But Engagement with Local Government Could be the Key

¶13. (U) Members of the Mahratta Chamber of Commerce, Industry, and Agriculture (MCCIA) believe that business chambers of trade and commerce like their organization play a vital role in bridging the gap between government and industry. For example, they said that their own chamber hosts bi-monthly meetings with the "guardian minister" of Pune and other government officials from different departments and its members where problems are discussed which the government commits to resolving. In this way, through direct engagement and interaction with the government, business chambers can assist in removing investment roadblocks and addressing challenges to business. Naser Munjee of the Development Credit Bank believes that civil activism will spur the government to action. He, however, admitted that direct engagement with local government to solve problems is more difficult in a large state like Maharashtra, or a large city like Mumbai, due to the plethora of government agencies and multiple layers of bureaucracy. Munjee pointed out that whichever mechanism businesses chooses to adopt, engaging with leadership at the state level is key to ensuring greater trade and investment relations with India. The central government can only develop policies to facilitate investment into the country but the states are central in developing a favorable business climate, he maintained.

Comment: State-Level Engagement Key to USG Efforts in India

¶14. (U) Maharashtra's undisputed reign as the nation's prime investment destination is not without its share of problems and challenges that have to be addressed for the state to maintain a favorable business and investment environment. Indeed, overcoming the state's political lethargy and meeting the state's infrastructure needs may be beyond the current crop of political leaders. However, we recommend that USG agencies consider more engagement with state leaders, as the majority of decisions that impact the experience of an American company in India are within the purview of the state, and not the central, government. The business community agrees that the state government is open to discussing, debating and even resolving problems and issues that plague business. Increased interaction and direct engagement with local government officials may, therefore, be the best way to push concerns and demand remedial action. End Comment.
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